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July 1, 1996

The Honorable Reed E. Hundt
Chairman
Federal Communications Commission
1919 M Street, N. W.
Washington, D. C. 20554

Re: Federal-State Joint Board regarding the federal Universal Service Fund, CC Docket No. 96-45

Dear Chairman Hundt:

We wish to share with you and the Joint Board in CC Docket No. 96-45 a question that has arisen with respect to the development of the federal universal service fund.

To put the matter in context, the Wyoming Legislature is currently in the process of making a detailed analysis of the state's educational system in light of a Wyoming Supreme Court ruling which requires fundamental changes in our education funding mechanism. Advanced telecommunications capabilities and services will play important roles in Wyoming's ability to offer high quality educational opportunities throughout the state to all students. Because section 254 of the Telecommunications Act of 1996 makes special provisions for universal service support of advanced technology in the schools, our Legislature is examining the potential role that this support could play in enhancing the educational opportunities which sophisticated telecommunications services could offer.

The particular threshold question is that of determining the physical point beyond which universal service fund support would no longer be appropriate for enhanced educational communications facilities. From one point of view, universal service should stop at the schoolhouse wall. That is, support should be available for telecommunications facilities up to the point at which they physically enter the school buildings they are meant to serve. Another position is that support should be available beyond the wall of the building for facilities inside the structure

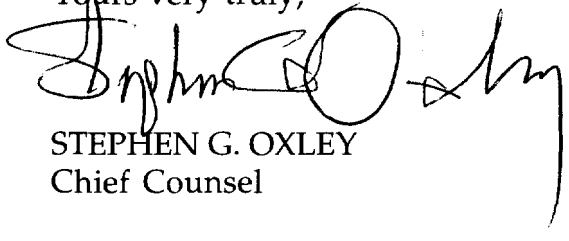
itself, covering inside wiring to computer labs, classrooms and school libraries and the like.

Enclosed for your review and that of the Joint Board is a copy of a paper presented by Nicholas P. Miller of Miller, Canfield, Paddock & Stone at a recent national education conference in Los Angeles. It advances the opinion that the schoolhouse wall should not be the point of demarcation. We would appreciate your consideration of this paper and the concepts it advances. So that we can assist the Legislature in its inquiry and planning, please let me know what opinions you and the Joint Board have developed on the subject. Your decision will be of great interest and importance to Wyoming as I know it will be for many other states as well.

In planning new educational telecommunications initiatives, Wyoming must confront relatively high costs, low population density and a requirement that it make fundamental changes in its school financing mechanisms. In this situation, modern communications technology will be of special value in helping to enhance the quality of Wyoming education and in bringing the best available education to all of Wyoming students. Therefore, we seek your insight on the demarcation question so that we may better assist with this important planning effort.

Thank you for your assistance.

Yours very truly,



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SCHOOLS AND LIBRARIES FOR THE 21ST CENTURY: IMPLEMENTING THE TELECOMMUNICATIONS ACT OF 1996

Presented by
Nicholas P. Miller

1996 Milken Family Foundation
National Education Conference
"Technology in Education: Practice and Policy"
May 1-4, 1996
Los Angeles, California

SCHOOLS AND LIBRARIES FOR THE 21ST CENTURY: IMPLEMENTING THE TELECOMMUNICATIONS ACT OF 1996

ABSTRACT: The national K-12 educational and library associations have proposed the design and application of the new federal "Universal Service Fund" to assist in bringing "core" and "advanced" telecommunications to the classrooms and libraries of the nation. T The Fund was created by the new federal Telecommunications Act of 1996. The rules governing who pays and who receives are being set by the Federal Communications Commission, in consultation with a special advisory board of four state utility commissioners. In a speech to the State Superintendents, Nicholas P. Miller of Miller, Canfield, Paddock and Stone, P.L.C., the attorney representing the national educational coalition, describes the work of the coalition to date and the work ahead. Most states will develop similar funds of their own. Leaders of the K-12 educational community must build local grassroots constituencies that will argue for the maintenance, expansion and fair application of the process that is creating and administering these funds. The complexity of telecommunications operations and financial arrangements puts the educational community at an initial disadvantage in these discussions. If the K-12 leadership fails to engage the debate in each state with state legislators and regulators, according to Mr. Miller, an opportunity to move the schools and libraries quickly and efficiently into telecommunications applications will be lost.

INTRODUCTION.

Thank you for the opportunity to address this distinguished audience of educational leaders. It is a great honor for me to have this opportunity to brief you on the Universal Service concepts in the Telecommunications Act of 1996 and what they mean for you and the schools in your respective states. This is important stuff. It goes to the essence of your schools--and what they will be over the next ten years. I hope you will leave here today sharing my enthusiasm for the subject -- as professional educators, I know you appreciate the importance of communicating enthusiasm, and I hope to meet your professional standards.

I head the telecommunications practice group of Miller, Canfield, Paddock and Stone. Our firm is based in Detroit, but I operate out of our office in Washington, D.C. We have had the privilege over the last two months of representing a coalition of 25 educational groups, including the Council of Chief State School Officers, the National School Boards Association, the American Library Association, and the

National Education Association, among others. As you may know, this Coalition filed comments in the initial round of the Federal Communications Commission's ("FCC") proceeding implementing the Universal Service provisions of the 1996 Federal Telecommunications Act. The Coalition will file reply comments early next week.

CONGRESS WANTS MORE COMPETITION IN TELECOMMUNICATIONS WHILE STILL ASSURING CORE UNIVERSAL SERVICE TO ALL.

The "Telecommunications Act of 1996" does a lot a things to a lot of industries and regulators. It encourages telephone companies to expand into new lines of business and new territories. It allows local telephone companies into traditional cable television services. It allows cable television companies to enter all forms of telecommunications services. And it sets a regulatory regime to require all the companies to interconnect with each other and to allow consumers to move freely from one company to another. In other words, the bill encourages new and expanded competition in all telecommunications markets.

The legislation also attempts to protect consumers from any residual monopoly service or from being isolated from service in high cost areas. It does this through authority left in the FCC and the state public utility commissions ("PUC") to "ensure that universal service is available at rates that are just, reasonable, and affordable."

CONGRESS CREATES A NEW CLASS OF UNIVERSAL SERVICE.

What is "universal telecommunications service"? What does it have to do with schools?

Congress has presented the educational community with a rare opportunity. A major reform proposed by the 1996 Telecommunications Act is to redefine an old telephone concept--"a telephone in every home"--to a new and expanding concept of "accessible and affordable telecommunications for every citizen." And Congress recognized this is only possible if the schools and libraries get there first. In other words, the essential prerequisite to widely available advanced telecommunications is an educated and trained consuming public. These skills must be learned in the schools and libraries of the nation. Only if advanced telecommunications are available in the near future in every school and library will the country develop the tools to use the technology of the next century, rather than that of the last.

A. Traditional Universal Service. The policy of Universal Service began as a telephone regulatory concept in the 1930's. The goal: every American should have a telephone at just and reasonable rates. The method: Assist the telephone industry through a set of subsidies to bring service at normal rates to rural areas and other places with unusually high construction and maintenance costs. Congress created the Rural Telephone Loan Program within the Rural Electrification

Administration. This provided low interest loans for rural telephone cooperatives and companies. Congress directed the FCC to establish a regulatory mechanism to assure nationwide average long distance rates. The FCC and state regulators required the telephone industry to create an internal pool of funds to subsidize telephone service prices in high cost areas. The subsidy pool was created from a small increase in the prices charged to all long distance users of the telephone network.

This initial universal telephone service policy was incredibly successful. It resulted in uniform national long distance rates, uniform averaged intrastate long distance rates, local telephone service that is universally available, and telephone prices in rural areas that are comparable to urban markets.

B. The New Concept of Universal Service. Today, however, "plain old telephone service" (POTS) is not enough. When universal service was introduced, rotary dial telephones and three-foot high Philco radios were leading edge technology. Now high definition tele-medicine and broadband computer research networks are essential to modern economic activity.

Times have changed -- and Congress has directed the FCC to keep up with the change by expanding the scope of universal service. Conceptually, Congress tells the FCC to set up a class of evolving "core" telecommunications services that should be available to all at "just, reasonable and affordable rates." In describing the types of services the FCC should define as universal service, the Act says the FCC is to consider the following factors:

- essential to education, public health, or public safety;
- used by substantial majority of residential customers;
- actually deployed; and
- necessary to protect the public interest, convenience and necessity.

Congress then directs that K-12 schools and libraries must receive these same services "at rates less than the amounts charged for similar services to other parties. The discount shall be an amount that the Commission (FCC) . . . and states. . . determine is appropriate and necessary to ensure affordable access to and use of such services. . . ."

In addition to discounted core universal services, K-12 schools and libraries should receive "access to advanced telecommunications and information services." The FCC will define the circumstances under which new and traditional telephone service providers "may be required to connect" these advanced networks.

The entire universal service system will be sustained through a subsidy pool created from assessments on all providers of telecommunications. The money will be distributed directly to the companies providing universal service to compensate "only for the provision, maintenance, and upgrading of the necessary facilities and services."

Each state is encouraged to set up a similar system for those services subject to state control and regulation.

THE FEDERAL REGULATORY PROCESS NOW UNDERWAY.

What are universal services? How should the discounted rates for schools and libraries for those services be calculated? What should be done to enhance the availability of advanced services? Congress left those questions to the FCC to answer, and that is what the current FCC/Joint Board "Universal Service" proceeding is all about.

The states have had a large role in regulating the telephone industry, so Congress did not leave the matter entirely up to the FCC. The 1996 Act directs the FCC to convene a Federal-State Joint Board of telephone regulators. The Board consists of three members of the FCC and representatives from the public utility commissions of four states: Florida, Missouri, South Dakota and Washington. The Joint Board will make formal recommendations (in November of this year) to the FCC. The FCC will then adopt final rules, probably in March/April of 1997.

STATE EDUCATION LEADERS MUST PLAY AN ESSENTIAL ROLE IN THE REGULATORY PROCESS.

Before I go into the details of the Coalition's proposal, let me make three important "process" points. First, those of you from Missouri, Florida, South Dakota and Washington need to meet with your state regulators serving on the Joint Board. They need to hear that the schools in their respective states need effective, long-term universal service mechanisms. And they need to hear that your educational community cares deeply about the quality of their work.

Second, this process will not end when the FCC issues its rules next winter. The FCC and the states will continue deal with these same issues indefinitely into the future. As technology changes, as service providers try to alter the rate mechanism, as various private interests try to expand or shrink the eligible recipients -- the FCC and individual states will revisit, revise, repeal and restore, depending on the shifting

political and popular balance of interests and issues. Like the old, simpler telephone universal service fund, this is a perpetual balancing act of competing private and public interests and pressures. So, just like your state appropriations process, the earlier you play, the better you prepare, and the more consistently you participate, month by month, year by year, the better you and your students and teachers will fare.

The third point is just as important--and not self-evident. This federal process will be replayed in EVERY state at your local state telephone regulatory commission. Each state PUC now has the authority to adopt its own state-wide Universal Service policy--state-specific rules dealing with these same issues at the state level. The federal law does require that a state's rules be consistent with the FCC's approach. But states do not have to do anything, or the same thing as the FCC. So you have to engage your state capital as the debate unfolds. When you leave Los Angeles, I ask that each of you call on your state utility regulatory commissioners. Meet the regulators and their staffs. Ask them about their plans for Universal Service to the schools and libraries in your state. And start your own advocacy agenda--with your key state legislators, your governor, and your traditional allies supporting progressive educational policies in the state political process.

THE K-12/LIBRARY COALITION CONCEPT OF UNIVERSAL SERVICE FOR SCHOOLS AND LIBRARIES.

The K-12/Library Coalition has called for the Joint Board to interpret the 1996 Act in the manner we believe Congress intended.

A. Services To Include Within Universal Service. The first step, we believe, is to make the Universal Service mechanism applicable to the proper categories of services. The 1996 Act states that "universal services" for schools and libraries should be available to schools and libraries at a discount. We believe "universal services" should be broadly defined. Those services should include, for every institution, local and long distance transmission services to provide two-way voice and data communication throughout the world and access to information databases wherever located. In addition, institutions should have available "special services" at a discount which should include any level of additional transmission services the institution believes it requires. These additional services include (i) unbundled broadband switching and transmission capacity capable of delivering high quality two-way video; (ii) high-speed, broadband circuits to the building "demarcation" point, and (iii) inside building wiring to all classrooms, offices, libraries, and computer work stations.

In other words, we are calling for the installation of connections to every K-12 classroom and library, up to and including broadband capacity.

B. Each School and Library Should Define Its Own Requirements. The Coalition believes that "one size will not fit all" schools and libraries. Each institution should define its own requirements. No single technology or technical solution will satisfy every entity. But each entity knows its own requirements to perform its functions. The best approach is to allow each school district to resolve the most practical and cost-effective for each institution, given its particular mission and situation. This will allow schools and libraries to choose the services they really need, and be assured those services will be available at a price they can afford, whether it be an ISDN line, a T-1 line, or a fiber connection.

This definition protects the innovators as well as the norm. It recognizes that the requirements of a magnet science high school are different than an inner city primary school. There will always be innovators who move ahead of the pack -- but their current efforts set the norm for tomorrow. As the innovators leave a technology behind, the majority adopts the old cutting edge as the standard. By including the requirements of the more advanced institutions, the FCC will ensure that the definition of special services is not outmoded before it has even been implemented. This is especially important because -- as you know -- demand for bandwidth tends to increase as users learn to apply the technology.

C. Schools Should Be Encouraged to Make Economically Rational Decisions. A broad umbrella of special services will work if each institution bears the real incremental cost of the services it uses. This will bring economically rational decisions to the process of development of advanced telecommunications in schools and libraries. We need a system of support that has staying power. No scenario provides for instantaneous installation of high technology telecommunications into every classroom and library. And the regulators and industry providers will not tolerate large block grants of equipment that serve no real purpose.

The educational community cannot and should not rush to install the highest possible level of technology for three reasons. First, not all schools and libraries need or want all covered services. Second, many institutions cannot take advantage of the provisions of the 1996 Act until they address other infrastructure deficiencies. Third, schools and libraries still have to find the money to fund the computers and other hardware required to use the benefits of advanced transmission services.

THE K-12/LIBRARY COALITION PROPOSES A PRICING MECHANISM TO ASSURE TELECOMMUNICATIONS SERVICES ARE AFFORDABLE TO SCHOOLS AND LIBRARIES.

Service can only exist if the price for the service is affordable to the schools and the libraries.

A. Service At a Real Discount, Not a Percentage Mark Down. The coalition proposes a mechanism of guaranteed, discounted service rates for both the installation of internal building networks and for on-going service over those lines. The key is to avoid a particular percentage discount off whatever rate the telephone service provider chooses to set. For example, we have gained nothing if schools and libraries are given a 50% discount off a rate that is set by the telephone company 100% above competitive price levels.

B. Find the True Competitive Price. The Coalition proposes a four step "benchmark" rate setting method. It starts with an assumption that competitive market prices are the best measure of cost of service. These prices should be the basic standard for all, even in markets without competition. If competition exists for the service anywhere in the nation, that competitive price, or a reasonable surrogate for the competitive price, is the starting point for the calculation.

C. Provide A High Cost Subsidy Where Appropriate. In high cost areas, the service provider to the schools can qualify for a subsidy from the universal service fund if the cost of service exceeds the national competitive price. This allows high cost areas to enjoy the same prices as highly developed areas of the country.

D. Discount the Competitive Price to Affordable Level. In step three, the competitive price is then discounted for all schools and libraries to a level that will ensure affordability. We define affordability as that price at which 95% of all schools and libraries in the nation would be able to pay for the service.

E. Provide Additional Low Income Area Support. In step four, schools and libraries in communities with family income levels that fall below the affordability norm will receive an additional "lifeline" discount. Again, the telephone company gets a subsidy from the universal service fund to compensate it for its costs in excess of the "lifeline" price.

The Coalition proposes the following general price ceiling rule for each service: The price paid by a school or library should not exceed the least of (i) the carrier's present-day rate or current bid, (ii) the lowest price "charged for similar services to

other parties," or (iii) the "benchmark rate" established through examination of truly competitive prices, discounted to assure affordability.

This price ceiling ensures that service providers cannot use the benchmark rate as an excuse to raise rates if they are already offering or have negotiated lower rates. For example, many local governments have negotiated cable franchise agreements that require the cable operator to provide free broadband connections to schools, libraries, and government offices for telecommunications purposes. Schools and libraries that are already receiving the benefit of such facilities should not be forced to pay for the service simply because the FCC has established a rate mechanism for those communities that do not already have the capability.

F. Applying the Formula. Let me describe the benchmark rate process in more detail. Under this method, rates for universal services in competitive markets would be used as surrogate prices in markets without competition. The coalition has suggested alternative ways of measuring competitive prices. One example is to use an average cost for bids in areas that have multiple respondents (such as large suburban school districts) and calculating a national median price. For services that are commercially available in competitive markets but not now widely used by schools and libraries, the national median commercial rate may also be a reasonable surrogate for the competitive price.

Once the benchmark competitive surrogate price has been computed, it will be further reduced by the FCC for interstate services and by the state regulatory body for intrastate services as necessary to make the price "affordable." We believe affordability means that price that would permit use of the service by 95% of the potential user community. The corresponding regulatory body would gather data based on current prices being paid by schools and libraries to establish an estimated demand curve for each special service. As economists say, the higher the price, the lower the demand. There are reasonable mathematical models that can replicate at what price 95% of the schools and libraries would use the service. As systems subscribe to each service, the data would be refined and the price point recalculated at regular intervals.

Carriers would have the opportunity to demonstrate to the regulating body that the incremental cost of providing the service exceeded the discounted rate. The carrier would be compensated from the universal service fund for any such difference between the 95% affordability price point and the carrier's incremental cost of providing the service.

G. The Issue of Incremental Coasts. The incremental cost to the telephone service provider of the universal service requested is another important, and

contentious point. The coalition believes that schools and libraries are the sine qua non of the wired society. It is in the providers' interests, as well as the society as a whole, to have students on the network, learning the tools of modern society. Therefore, we believe the carriers should not be subsidized for their preexisting investments, for any costs that can be recovered from other services, or any other costs of the companies that are unrelated to the direct costs caused by bringing universal service to the schools and libraries. One common formulation of this principle is "Traffic Sensitive Long Run Incremental Costs" ("TSLRIC"). The Coalition suggests this and other possible measures of the carriers' true costs of service to measure when the carrier qualifies for a universal service fund subsidy.

H. The Role of Competition. Rates in each area would be set after comparing bids received by the contracting agency to the competitive benchmark. If there is effective competition in a bidding area, the winning bid would be compared to the discounted national benchmark rate. If the competitively bid rate exceeds the discounted rate, the provider will be required to lower its price to the discounted rate. If the bid price is lower than the discounted rate, then the bid price will apply, under the general rule described above.

In areas where there is no effective competition, the discounted price should be based directly on the competitive benchmark for each service and basic service element. Any school district or library facing "above-benchmark" costs will get the service at the national benchmark price, less the discount.

As an alternative to the competitive benchmark rate, the FCC could adopt the TSLRIC. Under this method, the provider's TSLRIC for each service would be substituted for the discounted national competitive benchmark, provided that there was sufficient information to calculate the TSLRIC and agreement on what should be included in TSLRIC. Thus, providers would submit their TSLRIC's for each service as bids and the low bidder would receive the right to serve the bidding area, subject to the conditions discussed below.

Under both approaches, the provider of universal service in an area would be selected through a bidding process. Prospective service providers would submit bids to school and library districts upon the request of the contracting officer for each district, issued in accordance with local contracting procedures. Issuance of a request for proposals or any equivalent mechanism permitted by state or local law would constitute a bona fide request. Districts should also have the authority to aggregate demand by forming consortia among eligible entities.

To permit the contracting agency to compare bids, bidders would be required to submit unbundled rates for individual services, or rates for service packages

accompanied by a cost allocation showing the costs corresponding to each service in the package.

Bids would be reviewed by the requesting entity or entities, again in accordance with local contracting procedures. The low bidder would receive the right to serve schools and libraries in that region at the discounted rate. If, however, the contracting agency had reason to reject the low bid on grounds permitted by its local procedures -- such as a past record of poor service -- the contracting agency could select a different service provider. To encourage low bidding by service providers, however, only the lowest qualified bidder would have the right to compensation from the universal service fund.

I. The Lifeline Subsidy. It is possible in some cases that even the discounted benchmark price or the TSLRIC rate will be too high for very poor school districts and libraries. In such cases, we propose an additional lifeline subsidy for schools and libraries situated within districts that are in the bottom 25% of all school districts, ranked according to median family income. In other words, the lifeline subsidy would be available to schools and libraries serving the poorest 25% of the population. The amount of the subsidy would be proportional to the amount by which the average income in the district falls below the national average, so that an area with only 25% of the national average income would pay only 25% of the discounted price.

J. Aggregating Joint Usage for Better Prices. The Coalition also argued that the FCC should not take any action that would significantly restrict sharing of facilities. This is important because the 1996 Act prohibits the resale of services or network capacity provided to a school or library under the universal service provisions of the law. So long as a facility is being used primarily for educational purposes, however, it should be deemed to meet the requirements of the 1996 Act. Otherwise, innovative uses of technology such a tele-courses and enhanced roles for schools and libraries in acquiring and distributing information from the Internet could be stifled.

Finally, the FCC should encourage development of two-way interactive video services or Internet services over dedicated facilities to or for schools. The FCC can enhance access by adopting appropriate pricing policies, requiring the unbundling of services to allow easier aggregation of demand for service by school and library consortia, and mandating service by one or more local providers if nobody bids on a request for proposals issued by an eligible entity.

We believe that the Coalition's proposal will bring 21st century technology to every school in the country when that school is ready for it, at a price every school can afford.

THE COALITION IS REALISTIC ABOUT THE POLITICS OF "UNIVERSAL SERVICE".

Most telecommunications companies will resist paying into the Universal Service Fund. They will join forces to keep the formulae for drawing on the fund at minimal levels. Most local telephone companies will bitterly oppose true competitive bidding for the business of schools and libraries. They hope to be the sole recipients of money from the Universal Service Fund. All the service vendors will resist providing service to schools and libraries at true incremental cost levels. This specific issue was debated in the Senate and the current language in the law is a compromise that leaves the decision to the FCC. The telephone companies hope to increase local telephone charges and they are opposed to any model that suggests the true cost of local universal service is less than current price levels.

CONCLUSION.

This is complicated stuff. You need to get on top of the issues--and quickly. We are all engaged in a long struggle that will take perseverance and persistence -- the industry has many years of experience in these battles, and will not give ground easily. The Coalition will carry the debate before the Joint Board. But we can't do much in front in your state regulators. Whatever is won at the federal level could be lost at the state legislature and before the state PUC.

The long run cost implications for your institutions are enormous. You know your teachers, students and researchers will all need computers and modems and high-speed communications lines to conduct the education of the twenty first century. The new federal legislation offers you the opportunity to get the required transmission line infrastructure in place at reasonable prices. It will only work if you do.

I hope I have managed to convey the importance of the Coalition's work and given you a rough understanding of the Coalition's proposal. I know you recognize the potential for every school and library in the country. As I conclude, let me just remind you that these issues will be debated in every state over the next few years, and you have an enormous opportunity to affect the outcome.

Thank you.

WAFS1\44804.1\099999-20030

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45

To the Joint Board:

JOINT COMMENTS OF
NATIONAL SCHOOL BOARDS ASSOCIATION, AMERICAN LIBRARY ASSOCIATION, NATIONAL EDUCATION ASSOCIATION, CONSORTIUM FOR SCHOOL NETWORKING, COUNCIL OF CHIEF STATE SCHOOL OFFICERS, EDUCATION LEGISLATIVE SERVICES, INC., NATIONAL ASSOCIATION OF INDEPENDENT SCHOOLS, NATIONAL ASSOCIATION OF SECONDARY SCHOOL PRINCIPALS, AMERICAN FEDERATION OF TEACHERS, AFL-CIO, ASSOCIATION FOR THE ADVANCEMENT OF COMPUTING IN EDUCATION, AND NATIONAL ASSOCIATION OF ELEMENTARY SCHOOL PRINCIPALS

Summary

The National School Boards Association, the American Library Association, the National Education Association, the Consortium for School Networking, the Council of Chief State School Officers, Education Legislative Services, Inc., the National Association of Independent Schools, the National Association of Secondary School Principals, the American Federation of Teachers, AFL-CIO, the Association for the Advancement of Computing in Education, the National Association of Elementary School Principals, and other groups described in Appendix A that represent the interests of public and private schools and libraries, urge the Federal-State Joint Board to recommend that the Commission adopt rules fully and aggressively implementing the universal service provisions of the Telecommunications Act of 1996 (the "1996 Act"). In adopting the 1996 Act, Congress acknowledged the importance of education to the future economic development of the nation. It is no longer enough to ensure the availability of residential telephone service. Today's globally competitive economy requires that all schools and libraries have access to modern telecommunications technology at affordable rates for two reasons. First, telecommunications technology can improve the quality, efficiency, and responsiveness of the educational system. Second, the effective use of advanced telecommunications technology is already an essential employment skill.

In adopting the 1996 Act, Congress recognized that the current telecommunications infrastructure in schools and libraries is

inadequate. Only 9% of classrooms are connected to the Internet, and many schools and libraries continue to have no access at all. In addition, unless the needed services are affordable, they might as well not be available. Many schools and libraries do not provide their students and patrons with adequate access because they cannot afford the connections they need to perform their functions properly. Ensuring affordability is also critical to ensure that services are available on an equitable basis across the country.

The 1996 Act provides that core residential services must be available to all -- including schools and libraries -- at "just, reasonable and affordable" rates. We believe that core services should be made available to qualified institutions at the Total Service Long Run Incremental Cost ("TSLRIC"). Because providing core services will impose few additional costs on the service provider, that rate should be very close to zero.

In addition, certain special services must be provided to schools and libraries at affordable rates. The 1996 Act does not define "special services," but to meet the statutory goals, the Commission should define special services broadly to include all the services necessary to ensure that schools and libraries have the ability to take advantage of all the benefits of advanced telecommunications for educational purposes.

Therefore, special services should include, at a minimum, local and long distance transmission services to provide two-way voice and data communication throughout the world, access to information services throughout the world, and additional services covered by Section 254(h). Such "covered services" include (i) unbundled broadband switching and transmission capacity capable of delivering high quality video; and (ii) classroom and library access, including high-speed, broadband circuits to the building "demarcation" point, and inside wiring to all classrooms, offices, libraries, and computer work stations.

Schools and libraries need, not particular technologies or technical solutions, but the ability to perform certain functions. The best approach will depend on what is practical and cost-effective in a given situation. For this reason, and to impose economic discipline on users, the Commission should include a full range of service options up to and including the highest level described above.

The 1996 Act does not specify how the discount for special services is to be calculated. The legislative history gives the Commission considerable flexibility in this regard. We propose a method that is based on competitive market price or a surrogate for the market price for each service (if no such market price is readily ascertainable), and then provides for a discount from the competitive market price to a level that will ensure affordability to the large majority of schools and libraries. We further propose to allow the carrier, at such time as sufficient data is available, to establish a floor for the rate for a particular special service at the TSLRIC of providing that service. Finally, to further ensure that the goals of the legislation are met, we also propose an additional lifeline subsidy to schools and libraries in very poor areas. Because the carriers' costs would be covered, the draw

on the universal service mechanisms would be limited to lifeline services.

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